GEO

Guyana Economic Opportunities

Institute for Private Enterprise Development (IPED) Institutional Assessment

Prepared by:
Chrys Miliaras

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Chemonics International Inc.

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Management Systems International, Inc.

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I. Introduction

The following report provides an institutional assessment of IPED's Micro Window. Its purpose is to identify areas of strengths and weakness that will form the basis of a training and technical assistance plan designed to bring its methodology and operations in line with the Best Practices of the leading Microfinance Institutions (MFIs) around the world. It should be noted that, in line with the mandate of the assignment, the bulk of the analysis and recommendations pertain to IPED's Micro Window[1]. However, in some cases, both the Micro and Main windows were analyzed, as sometimes it was very difficult to distinguish between the two. This was particularly true with regard to parts of the financial analysis and Management Information System (MIS) assessment. The author has tried to be clear throughout the report with regard to which window is being discussed.

IPED should be commended for opening itself up to the institutional assessment process. Inevitably, when an institution invites an outside consultant to view its operations and performance up close, it runs the risk of receiving a long list of its faults and hardly a mention of its strengths. While the author has tried to be sensitive to this and present a balanced picture of what is working at IPED in addition to highlighting what could be improved, he must confess that this analysis has a bias toward focusing on the latter. That said, he would like to state up front that IPED has come a long way in the past two years since it overcame a delinquency crisis that threatened the very existence of the institution. He has a great deal of respect and admiration for IPED's Board, General Manager and staff who have worked extremely hard to turn a very difficult situation around. IPED now stands on much more solid ground. The crisis behind them, it has begun to look to the future for ways to increase its impact on the Guyanese microbusiness sector beyond the significant contributions that it has already made. Over the past year or so, IPED has begun to implement many positive changes to strengthen itself institutionally. For example it has developed a new portfolio management system, implemented a performance-based incentive system for its credit officers, and designed a loan classification system. All of these are moves in the right direction. The purpose of the following analysis, however, is to apply an outside perspective to these changes and recommend ways that IPED can further improve its performance and, in so doing, place itself on a path toward full financial self-sufficiency and long-term viability.

II. Financial Analysis

Prior to undertaking the operational review described in section three of this report, the author undertook a financial analysis of IPED. This analysis entailed a review of IPED's financial statements from 1997 through 1999, adjusting them to take into consideration:

- Proper provisioning for loan losses based on standards set by the CGAP Secretariat.

[1] While there is no official minimum for Micro Window loans, they usually start at G$30,000 (approximately US$55) and go up to G$150,000 (approximately US$835). Main Window loans range from approximately G$50,000 to G$2,000,000 (US$280 – US$11,000). The primary distinction between who qualifies for which window relates to collateral.

- Subsidies derived from concessional interest rates IPED receives on its donor loan funds and capital donations.
- Inflation.

How these adjustments were calculated and what their impact was on IPED's bottom line are detailed in the Appendix. What follows below is a series of performance indicators broken down into four categories:

- *Portfolio Quality Ratios*: These provide information on the percentage of non-earning assets set, which in turn decrease the revenue and liquidity position of an MFI.

- *Productivity and Efficiency Ratios:* These provide information about the rate at which MFIs generate revenue to cover their expenses. By calculating and comparing productivity and efficiency ratios over time, MFIs can determine whether they are maximizing their use of resources. Productivity refers to the volume of business that is generated (output) for a given resource or asset (input). Efficiency refers to the cost per unit of output.

- *Financial Viability:* Financial viability refers to the ability of an MFI to cover its costs with earned revenue. To be financially viable, an MFI cannot rely on donor funding to subsidize its operations. To determine financial viability, self-sufficiency indicators are calculated. There are usually two levels of self-sufficiency against which MFIs are measured: *operational self-sufficiency* and *financial self-sufficiency*.

- *Profitability Ratios:* Profitability ratios measure an MFI's net income in relation to the structure of its balance sheet. Profitability ratios help investors and managers determine whether they are earning an adequate return on the funds invested in the MFI. Determining profitability is quite straight forward – does the MFI earn enough revenue excluding grants and donations to make a profit?

The key findings of this analysis are:

- IPED has steadily reduced its portfolio at risk for its Micro Window from 32.8% in 1997 to 16.1% in 1999.[2] While this is a very positive trend, IPED still needs to bring this figure to below 10%.

- Related to the above, IPED has not been provisioning as much as they should have been according to CGAP standards for their loan loss reserve. As such, they have been significantly understating this expense.

- Finally, IPED is making strong strides to full financial self-sufficiency but still has a ways to go with regard to generating revenues sufficient to cover full financial costs (adjusted for subsidies and inflation), operating expenses, and proper provisioning for loan losses.

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[2] For 1999, the Micro Window's portfolio at risk > 30 days and > 90 days was 14.8% and 5.4% respectively; for 1997, it was 27.9% and 20.7% respectively.

IPED PERFORMANCE INDICATORS
PORTFOLIO QUALITY RATIOS

		1999	1998	1997	Best Practice Benchmark
Arrears Rate					
= Amount in arrears/	*Micro Window*				
Portfolio Outstanding (including amounts past due)	*Main Window*				
	Micro & Main Windows				2% - 4%
Portfolio at Risk		**1999**	**1998**	**1997**	
= Outstanding balance of loans with payments past due/	*Micro Window*	16.1%	21.9%	32.8%	
Portfolio outstanding (including amounts past due)	*Main Window*	18.5%	31.0%	40.1%	
	Micro & Main Windows	18.2%	30.0%	39.8%	<10%
Delinquent Borrowers					
= Number of delinquent borrowers/					
Total number of active borrowers					
Loan Loss Reserve Ratio	*Micro & Main Windows*	**1999**	**1998**	**1997**	
= Loan loss reserve/	*Unadjusted*	6.9%	7.4%	12.0%	
Portfolio outstanding	*Adjusted for loan losses*	13.2%	21.7%	30.1%	<5%
Loan Loss Ratio		**1999**	**1998**	**1997**	
= Amount written off/	*Micro & Main Windows*	NA	NA	NA	
Average portfolio outstanding		NA	NA	NA	<2%

Note: IPED did not write off any loans from 1997 - 1999.

Note: It should be noted that, to date, there are no standard set of ratios to use nor standard ranges of performance for the microfinance industry. The "Best Practice Benchmarks" referred to above and below primarily come from the *Microfinance Handbook*, by Joanna Ledgerwood, The World Bank, 1999.

IPED PERFORMANCE INDICATORS
PRODUCTIVITY AND EFFICIENCY RATIOS

Productivity Ratios:

		1999	1998	1997	Best Practice Benchmark
Number of Active Loans Per Credit Officer		**1999**	**1998**		
= Average number of active loans outstanding/	*Micro Window*	189			
Average number of credit officers	*Main Window*	113			
	Micro & Main Windows	148	90		60 -140
Average Portfolio Outstanding Per Credit Officer		**1999**	**1998**		
= Average value of loans outstanding/	*Micro Window*	10,722,087			
Average number of credit officers	*Main Window*	68,017,984			
	Micro & Main Windows	41,974,394	36,924,824		
Average Loan		**1999**	**1998**		
= Average value of loans outstanding/	*Micro Window*	56,746	74,278		
Average number of active loans outstanding	*Main Window*	600,600	700,017		
	Micro & Main Windows	284,266	411,393		
Amount Disbursed Per Period Per Credit Officer		**1999**	**1998**		
= Total amount disbursed/					
Average number of credit officers	*Micro & Main Windows*				

Efficiency Ratios:

		1999	1998	1997	Best Practice Benchmark
Operating Cost Ratio		**1999**	**1998**		
= Operating costs/					
Average portfolio outstanding	*Micro & Main Windows*	6.96%	7.00%		13% - 21%
Salaries and Benefits to Average Portfolio Outstanding		**1999**	**1998**		
= Salaries and benefits/					
Average portfolio outstanding	*Micro & Main Windows*	2.56%	2.92%		4% - 16%
Cost Per Unit of Curreny Lent		**1999**	**1998**	**1997**	
= Operating costs/					
Total amount disbursed	*Micro & Main Windows*				
Cost per Loan Made		**1999**	**1998**	**1997**	
= Operating costs/					
Total number of loans	*Micro & Main Windows*	17,166	21,124	39,252	

IPED PERFORMANCE INDICATORS
FINANCIAL VIABILITY

		1999	1998	1997	
Operational Self-Sufficiency	*Micro & Main Windows*				
= Operating income/	*Unadjusted*	234%	168%	128%	
Operating expenses + financing costs + provision for loan losses	*Adjusted for loan losses*	148%	77%	60%	

		1999	1998	1997	
Financial Self-Sufficiency	*Micro & Main Windows*				
= Operating income/Operating expenses + financing costs +	*Unadjusted*	234%	168%	128%	
provision for loan losses + cost of capital	*Adjusted for loan losses*	*148%*	*77%*	*60%*	
	Adjusted for loan losses, subsidies, & inflation	69%	51%	42%	100%+

		1999	1998	1997	
Subsidy Dependence Index					
= Total annual subsidies received/					
Average annual interest income	*Micro & Main Windows*	51%	116%	161%	<0

PROFITABILITY RATIOS

		1999	1998	
Return on Assets				
= Net income/	*Main & Micro Windows*			
Average Assets	*Unadjusted*	10.2%	5.6%	
	Adjusted (Loan Losses)	6.1%	-4.2%	
	Fully Adjusted (Loan losses, subsidies, inflation)	-7.9%	-13.6%	2% - 10%

		1999	1998	
Return on Equity	*Main & Micro Windows*			
= Net adjusted income/	*Unadjusted*	20.6%	12.1%	
Average Equity	*Adjusted (Loan Losses)*	12.2%	-9.8%	
	Fully Adjusted (Loan losses, subsidies, inflation)	-16.4%	-31.4%	15% - 30%

LEVERAGE AND CAPITAL ADEQUACY

III. Operational Review

The following operational review examines four key areas of IPED's Micro Window operations – Credit Methodology, MIS, Financial Management, and Administration – and recommends ways in which they can be strengthened based on the Best Practices of MFIs around the world.

A. Credit Methodology

Products & Services

IPED's Micro Window offers three basic services to its clients:

- Credit: working capital (approximately 75% of all loans) and fixed asset loans.
- Compulsory (encouraged) savings.
- Technical assistance (one-on one) & training (more formal customized courses and workshops through IPED's training institute).

Target Market

- The target market for IPED's Micro Window are poor Guyanese microbusiness owners who do not have marketable collateral. Credit officers try to cultivate a mix of business activities in their loan portfolios (commerce, manufacturing, service, etc.), however most clients tend to be involved in some sort of trading activity.

- Credit officers are assigned territories in order to minimize their travel time and increase efficiency in general. Portfolios are fairly well balanced in terms of the numbers of clients per credit officer.

Basic Loan Requirements

- In order to secure a Micro Window loan from IPED clients must:

  - Own their own business for at least 6 months.
  - Pledge some sort of collateral (savings, equipment, property, vehicles, time deposits, salary deductions, etc.).
  - Be over eighteen years of age.
  - Have two references.

Loan Sizes

- There is no minimum loan size for first time loans. (They usually are not smaller than G$10,000.)[3]
- The maximum loan size for a first time loan is G$30,000.

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[3] In 1999 the exchange rate was approximately 180 Guyanese dollars to 1 US dollar. In 1998, it was approximately G$150 to US$1; in 1997, it was approximately G$140 to US$1.

- The maximum increase for a repeat loan is 50% (30% - 40% is typical), with increases being based upon prompt loan repayment and the client's capacity to effectively utilize increased debt.
- The upper limit of Micro Window loans is officially G$150,000, however there are some exceptions that go as high as G$300,000.

Terms

- Most loan terms are four to six months long. This appears to be inappropriate given the fact that most of IPED's Micro Window clients are vendors who typically have very high rates of inventory turnover that would imply their needing shorter loan terms of one to three months, depending upon the cash flow of the business. While credit officers analyze client revenue and expense information, they do not analyze cash flow in order to properly match the loan term to the client's business cycle. The belief seems to be that longer loan terms make it easier for clients to service their debt which in turn increases the likelihood of timely loan repayment. In fact, the effect could be just the opposite as inappropriate loan terms (either too short or too long) often result in delinquency. (In the case of loan terms being too short, clients may not generate enough revenue to make their loan payments. In the case of loan terms being too long, clients may be tempted to spend excess cash rather than repay their loan.)

  The likelihood that IPED is setting loan terms too long is further evidenced by the fact that most of IPED's clients prepay their loans by one to two months. Moreover, some clients may be prepaying their loans in order to qualify sooner for larger repeat loans; it is possible that in some cases they are using other loans (e.g. box hand loans) to do this. While it is difficult to determine this for certain – due to the fact that money is fungible – the fact that credit officers do not perform cash flow analysis makes it virtually impossible.

  Finally, not only does loan prepayment reduce IPED's revenue – as clients do not pay interest on repaid loans – but it also makes it more difficult for IPED to manage its liquidity and project future revenues. It is also possible that IPED's relatively high delinquency rate (Micro Window portfolio at risk for 1999 was 16.1%) is linked to inappropriately structured loans.

Recommendations:

- Analyze whether loans are being properly structured.

- Train credit officers in cash flow analysis and setting appropriate credit terms.

- Review/amend credit procedures manual.

Payment Frequency

- Loans repayments are scheduled on a weekly, fortnightly, or monthly basis. Most Micro Window clients prefer to repay their loans either on a weekly or biweekly basis. Agricultural loans tend to be repaid on a monthly basis.

Pricing

- Micro Window loans are priced at 1.2% per week based on a declining balance.
- Clients pay an application fee of G$600 for loans under G$60,000. Loans over that amount are charged a fee of 1%.
- Clients pay a G$100 loan cancellation fee.
- The same fees apply to repeat loans.
- Clients are encouraged to save G$100 per week, which further drives up the cost of the loan. However, as this policy is not strictly enforced, it is hard to calculate by how much. For more information on savings, see below.

Recommendations:

- Calculate appropriate Micro Window interest rates based on the Micro Window's operational and financial costs (adjusted for loan loss reserves, subsidies and inflation). At first glance, it appears that IPED's Micro Window interest rate could be sufficient to cover its costs. However, these need to be accurately determined so that IPED can set its Micro Window loan rates based on financial self-sufficiency targets.

- Fine-tune and disseminate IPED's loan classification system, which it recently developed but has yet to fully implement. The intent of this system is good. Its purpose is to rate clients according to their repayment history, thus facilitating credit analysis for IPED while providing clients with a positive incentive to repay their loans on time as clients with a superior classification theoretically can access loans faster than clients with a poor one. Nevertheless, the loan classification system needs some adjustment in order to make it more effective. For instance, under the current classification system a client must repay ten loans before he or she can qualify for an automatically approved loan. With credit terms set at 6 months, it could take up to five years for the incentive to kick in systematically and favorably – far too long for the incentive to be meaningful. The number of loans required to qualify should be reduced and the criteria of the classification system made clearer and less lenient.

Savings

- IPED encourages its clients to save a portion of their loans with IPED for emergency purposes and to encourage clients to develop the habit of saving. In theory, this is a mandatory requirement for garnering a loan; however, it is not strictly enforced. Clients are encouraged to save G$100 per week. There is a feeling that most clients save some amount. Clients may access their money at any time and receive interest at 4.5% to 5%, compared to the commercial bank deposit rate of around 8% - 9%. IPED does not formally take into consideration a client's savings balance in subsequent loan applications as a means of measuring the client's creditworthiness (clients who save receive no preferential treatment over clients who do not save) thus losing a valuable incentive to encourage savings.

Recommendations:

- Help IPED design savings schemes that do not violate the law. IPED is not a regulated financial institution and therefore is not legally allowed to mobilize savings. These schemes should be focused on establishing measurable, positive incentives to save. For example:

  - Establishing relationships with banks that would allow IPED clients to mobilize savings through regulated financial institutions where it would be legally safeguarded. Given the large amount of savings that IPED has mobilized, it should be able to negotiate a favorable savings rate on behalf of its clients and could most likely negotiate benefits for IPED itself.

  - Offering reduced interest rates to clients who repay their loans on time every time. For instance, refund clients a fixed percentage of their interest at the end of each loan term if they maintain a perfect repayment record for the duration of their loan. (For example, clients who repay on time would be charged 1% interest per week instead of 1.2% interest per week – a savings of nearly 20%.) This sort of incentive would encourage on-time repayment and would also provide clients with a lump sum of a cash at the end of each loan term that they could use as they best see fit. For example, they could deposit these funds in a bank, invest them in their business, or spend them on family needs.

  - Incorporate savings systematically and favorably into the loan approval/classification process mentioned above. For instance, clients would automatically qualify for a loan equal to the amount of their savings. Again, this would provide clients with a positive incentive to save that would have clear, measurable benefits for them. It would also help to reduce IPED's lending costs by:

    - Lowering the risk profile of borrowers.
    - Expediting loan application analysis.

Insurance

- IPED registers all of its clients in a group insurance plan in the event that a client dies and cannot repay its loan. The client signs a form assigning IPED as the beneficiary in the event that he or she dies and cannot repay the loan.

Recommendation:

- Factor insurance costs into IPED's financial costs, providing the above type of insurance is a good policy for IPED and its clients. However, the cost per client should be calculated and included as part of IPED's financial costs so that it can then be reflected in its interest rates.

Credit Delivery Procedures:

Promotion

- IPED promotes its Micro Window through a variety of marketing channels:

  - Television.
  - Radio.
  - Community promotional meetings through local NGOs.
  - Door to door.
  - Client referrals.

Loan Approval Process

It takes approximately one to one and a half weeks to process a Micro Window loan originated out of IPED's head office. The main aspects of the Micro Window loan approval process are described in detail below:

- *Inquiries*: All credit officers handle walk-in inquiries on an as needed basis. (Anywhere from twenty to twenty-five people drop by IPED on a daily basis to inquire about loan application procedures.) This takes up a large portion of their in-office time (five to ten hours per week per credit officer) and is extremely inefficient. If a prospective client is deemed to meet the basic requirements, they are instructed which documents and materials they must produce to complete their application.

- *Applications:* Once the client has produced the necessary documentation, the loan officer completes the credit application, taking down relevant information such as revenue and expense information, loan use, etc. The final steps before a loan application can be submitted for approval include visiting the client's business, checking references, and writing up the loan.

- *Approval:* IPED's senior credit officer and general manager review all credit applications (including those originating in branches). Moreover, Micro Window credit applications originating from the branches must be brought to head office for approval. This requires branch and sub-office credit officers to spend one day per week traveling to head office to have their loans approved. This results in approximately one week's worth of lost productivity per month as credit officers sacrifice time that could be spent in the field traveling to head office. All branch loan disbursements are also processed by head office (see below).

- *Disbursements:* Once a loan is approved, clients must attend a mandatory one-hour "training" session – held by IPED's training center – prior to disbursement. The purpose of this meeting is to reinforce the importance of prompt loan repayment as well as provide instruction on basic bookkeeping. In addition, all disbursement checks are cut at head office, as branches do not have check signing authority or the power to approve loans.

Recommendations:

- Redesign IPED's loan approval process to make it more efficient and thorough. Specifically:

    - *Inquiries:* IPED should change the way that it handles credit program inquiries, as credit officers are losing between twenty to forty hours per month handling them. The inquiry situation could be remedied in a number of ways including holding a regularly scheduled daily information session, which should not take more than one hour to complete. Credit officers could take turns running the sessions, which would free up considerable time to devote to lending activities. Also, credit officers could be assigned specific hours where they are responsible for handling walk-in inquiries. Handling client inquiries more efficiently would enable credit officers to spend more time monitoring clients (see below) as well as free them up for a variety of other activities that tend to get neglected due to lack of time.

    - *Applications:* As was discussed previously, credit officers need training in cash flow analysis in order to set appropriate loan terms. Once this is done, loan applications will need to be redesigned in order to reflect these changes.

    - *Approval:* If IPED intends to scale-up its Micro Window lending activities, it will have to streamline its loan approval process, otherwise loans will become bottlenecked if they must all be approved by the general manager. A system needs to be developed that provides senior credit officers and branches with the authority to approve loans within certain loan ranges. Naturally, for such a system to work effectively, all credit officers must be thoroughly trained and procedures, policies, and responsibilities clearly defined. Moreover, moving toward a decentralized loan approval system – which can be monitored by management – will free up the general manager for the more important tasks of planning, new product development, etc. that will have to be tended to if IPED wishes to expand beyond its current level of operations.

    - *Disbursements:* IPED will need to move toward giving its branches the authority to disburse loans. Again this can only occur if branch staff and managers are properly trained to ensure that credit methodology is being uniformly applied throughout the organization.

Delinquency Management:

Monitoring

- Each morning, every credit officer generates a computer report that lists all loan payments due that day as well as any delinquent loans in their portfolio. Credit officers call (where possible) clients whose payments are due that day and visit any clients whose loans are one day overdue. The adoption of this system has been a key reason for IPED's success in bringing its delinquency under control.

- Credit officers spend two to three days in the field and try to visit approximately 30 to 40 clients per day. The goal is to visit every client at least once per month. However, credit officers spend most of their field time following up on delinquent clients, leaving little time to forge strong client relationships or offer meaningful technical assistance. This increases the likelihood that good clients could develop a delinquency problem.

Enforcement/Follow-up

- Before a client is thirty days overdue with their loan payment, IPED delivers a letter signed by IPED's General Manager informing the client that he/she has missed their deadline and that they must fulfill their obligation to repay their loan. Once a loan is two months late, the delinquent client receives a letter from IPED's lawyer stating that they will be taken to court if they fail to repay their loan. Once that letter goes out, IPED contracts a collector (or uses one of their security personnel) to seize any collateral that the client has pledged. If the client still fails to repay the loan, IPED sells the collateral.

Repayment Incentives

- IPED offers clients the prospect of future and larger loans if they make their loan payments on time. As was mentioned above, loan increases of 30% - 45% are typical. They also offer their clients the prospect of rapid loan approval (sometimes within one day) for repeat loans.

- Also, as was mentioned above, IPED is preparing to implement a loan classification system as well as create an automatic loan product based on credit repayment history.

- IPED charges a late payment fee of G$100 when a loan is five days overdue and G$50 a day after that. There is no limit to how long this penalty can accrue and it is not strictly enforced because credit officers do not want to create an incentive for clients to default on their loans because their late fee penalty has become so large.

Rescheduling and Refinancing Policies

- Since abandoning group lending for individual loans, IPED rarely reschedules client loans. Only under extreme circumstances will it reschedule a loan and only if the client has an excellent repayment record. However, as rescheduled loans are not reclassified as such, there is no way of knowing for certain what percentage of IPED's loans has been rescheduled.

- IPED does not refinance loans.

Recommendations:

Fine-tune IPED's delinquency management process in order to maximize its effectiveness and to bring its portfolio at risk under 10%. Specifically:

- Credit officers need more time to visit all clients – not just delinquent ones – at least once per month. If IPED redesigns how it handles inquiries, credit officers will have more time to monitor clients.

- Repayment incentives need to be clearly and consistently articulated to clients at every step of the loan approval process – from inquiries to application to disbursement to monitoring. Materials should be developed and training delivered to credit officers and staff on how to communicate repayment incentives more effectively. Moreover, the loan classification system and automatic loan product should be finalized and actively marketed to clients as a repayment incentive.

- A formal policy should be established that sets a maximum late fee penalty for delinquent loans. All credit officers should consistently enforce this policy.

- Rescheduled loans need to be classified separately and tracked as a percentage of the overall loan portfolio.

- Finally, IPED needs to set delinquency targets that bring its portfolio at risk to the Best Practice target of below 10%. Portfolio at risk is a key indicator of the health of any MFI and needs to be monitored on an ongoing basis.

Technical Assistance & Training

In addition to offering working capital and fixed asset loans, IPED offers its clients technical assistance and facilitates training opportunities through its training institute.

- Credit officers provide clients with one-on-one technical assistance. This primarily applies to credit officers that issue agricultural loans. For instance, a credit officer may advise a client on which fertilizers to use, feed to purchase, and so on. As was mentioned above, technical assistance to urban clients is fairly limited due to time constraints as well as a lack of expertise and training with regard to what kinds technical assistance loan officers can provide urban clients.

- Toward the end of 1999, IPED established its own training center. In addition to handling the mandatory "training" session described previously, it also coordinates special free training sessions for clients on an ad hoc basis. For instance, IPED recently arranged a session on how to smoke fish for clients (fisherman, food processors, etc.) Also, credit officers make suggestions on training topics that could benefit large groups of clients (e.g. classes on how to improve crop yields for rice farmers) to the training department who then contacts the appropriate NGO, international agency, or government department who then delivers the training.

Recommendations:

- Develop a clearly articulated technical assistance strategy that defines exactly what kinds of services IPED will provide to its clients. As it presently stands, IPED's technical assistance – at least to its urban clients – appears to be rather ill defined. Moreover, as has been said a number of times, credit officers do not appear to have much time to devote to technical assistance anyway. That said, however, IPED should be cautioned against engaging in in-depth technical assistance efforts that distract or dilute the effectiveness of its credit delivery operations.

B. Management Information Systems

IPED's management information system is built around its accounting and portfolio software packages. These are two separate systems that are not linked.

Accounting System

IPED uses the DOS-based accounting system ACCPAC. While it is over five years old, the staff seems satisfied with its performance and the system appears to be quite satisfactory in meeting the institution's present accounting needs as well as those for the foreseeable future. Currently, IPED is examining the possibility of upgrading to ACCPAC 2000.

Some of the key characteristics of the system include:

- *Single input of data:* All data (revenues, expenses, loan disbursements, loan repayments, etc.) is inputted into the system by MIS staff person. Data entry takes up five to six hours per day and does not appear to be the best use of her time as she is IPED's main information systems resource and her time is needed to deal with the more management related aspects of her job. These include ensuring that IPED's operations and management staff are receiving the information they need to do their jobs as well as making sure that the information systems are running properly. Currently she is training an understudy who will take over her data entry responsibilities. However, this has been talked about for quite some time (over a year) and it is crucial that the transition takes place soon so that MIS person can be freed up to handle more pressing issues.

- *Rigorous accounting standards:* ACCPAC will not accept entries that do not balance, which is an important design feature.

- *Flexible chart of accounts structure and report writer:* The system allows IPED to track income and expenses, as well as generate reports, in a variety of ways including by Micro and Main Windows, branches and funding source.

- *Historical, budget, and current financial information:* ACCPAC has the capacity to maintain and report on this information for up to five years.

- *User friendliness:* According to the MIS person and IPED's Accountant, the system is user friendly with regard to menu layouts and documentation.

- *Local support:* This has not been a problem as the MIS person has been able to handle the support needs of the system.

- *Hard disk-utilization requirements:* These appear to be modest as ACCPAC can store up to five years of information on the hard drive before it has to be backed up.

- *Network capacity:* The current version of ACCPAC is not networkable. However, ACCPAC 2000 may be able to support this feature. This has not been an issue as IPED's branches are not set up as cost centers. All data input and report generation relating to the branches is performed at head office and then fed out to the branches.

Recommendation:

- IPED should follow through with assigning a full-time person to handle its data entry responsibilities. Strong MIS systems are the backbone of a well-functioning microfinance institution (MFI) and IPED needs someone specifically skilled and dedicated to managing IPED's growing MIS needs. As such, it should move forward and create an MIS manager position.

Portfolio System

Background

IPED uses the Loan Management Control System (LMCS); a custom DOS-based program specifically designed for IPED by a local information systems consultant. The LMCS was designed just under two-years ago with input from IPED in order to replace IPED's manual portfolio system, which recorded client account information on cards. Needless to say, this manual system was inadequate particularly with regard to delinquency management. While LMCS has been a significant improvement, IPED is not highly satisfied with its performance. The system needs to be modified in order to bring it up to its full potential and to maximize its effectiveness as an operations and management tool.

Data flows into the LMCS system in a rather cumbersome process. First, credit officers fill out applications by hand. Main Window applications have to be typed up for presentation to the board. (Micro Window loans rarely go before the board, which reviews all loans above $120,000). Once an application is approved (an approved application is called a disbursement), account clerks enter it into LMCS.

This process has several disadvantages. First, there is a great deal of duplication of effort with regard to data entry. Not only is this inefficient, it increases the chance for error. Ideally, credit officers should enter information directly into LMCS. Second, waiting until after a loan has been approved to enter it into LMCS makes cash flow management more difficult. (This issue will be discussed in more detail in the next section).

The primary reason for these difficulties has to do with LMCS's report generation capabilities. The system has never been able to properly print loan applications even though it was designed to do so. This situation needs to be rectified without further delay.

Some of the key program characteristics of LMCS are described below:

- *Ease of use:* LMCS is a fairly easy to use program. The credit staff uses it on a regular basis in addition to the MIS person who uses it to generate a range of portfolio reports, which are described in more detail below.

- *Setup options*: LMCS can be modified to accommodate changes that IPED may at some point decide to make with regard to information that it collects from clients or new products that it may develop. Since being implemented over a year ago, IPED has wanted to make certain changes to LMCS's design but has been unable to do so. IPED's MIS person has not bee trained to modify LMCS.

- *Data disaggregation:* LMCS enables data to be disaggregated on several different levels including by credit officer, branch, Micro or Main Window, etc.

- *Interest fee calculations:* LMCS calculates interest but does not automatically calculate loan payments, which have to be calculated (by credit officers) on a calculator and then inputted into the system. Ideally, the program should be able to perform all calculations, thereby maximizing efficiency and minimizing opportunities for error. Once loan payment information is inputted, the LMCS can determine which portion of the payment is for interest and which is for principal. It also is able to recalculate interest owed if a client prepays his or her loan.

- *Receipt generation:* LMCS automatically prints out receipts for client loan payments. However, it does not do so for loan application and cancellation fees, which the cashiers have to write by hand. This represents a large time drain, not only with regard to hand writing the receipts, but also with regard to calculating daily revenue figures, which have to be manually totaled before being inputted into the accounting system.

  - *Savings:* As it is presently designed, LMCS is not set up to track client savings. While it can track individual deposits, it does not provide account balances, which clients record in their passbooks. Instead, IPED tracks total client savings by manually totaling savings deposits received and entering them into ACCPAC.

  - *Hardware/software features:*

    - *Operating system:* LMCS is a DOS based system.
    - *Data storage format:* Data is stored on a cartridge.
    - *Network support:* LMCS is set up on a local area network (LAN) which runs on Windows NT.
    - *Access speed:* Apparently the LMCS runs a bit slow.

  - *Scalability:* The MIS person estimates that LMCS could handle up to 10,000 clients.

- *Support:* This has been a major problem for IPED. For well over a year, IPED has been trying to the resolve the aforementioned issues to no avail. It is not clear at this stage why the support has not been forthcoming.

- *Reports:* The LMCS generates the following reports:

  - *Payments due/delinquency by credit officer:* This report is generated daily by each credit officer and lists all payments due that day as well as all delinquent loans in his or her portfolio. This report is the key delinquency management tool for credit officers.

  - *Portfolio aging report:* This report is generated monthly for IPED's General Manager and provides an overview of IPED's Main and Micro Window portfolios by breaking down IPED's delinquent loans by 30-day increments. The IPED General Manager keeps abreast of delinquency on a more frequent basis by meeting with individual loan officers at least once per week and reviewing their portfolios. As the program grows this method of portfolio quality supervision will be unsustainable and the General Manager will have to rely more and more on MIS reports as opposed to face to face meetings with credit staff to ensure that operations are running smoothly.

  - *Printing issues:* It should be noted that the portfolio aging report takes a full day to run, which is one of the reasons that it is printed only once per month. Also, as is the case with loan applications, the aging report cannot be printed in the format that IPED wants and needs.

- *Security features:*

  - *Passwords and levels of authorization:* The system appears to be fairly well protected. All credit officers have their own passwords and can only enter certain areas of the program.

  - *Data modification:* Only the MIS person can change client information within the system.

  - *Back up procedures:* LMCS is backed up on a daily basis.

Branches

IPED's branches are all set up on LMCS and are supposed to connect to head office on a daily basis in order to transfer and receive data to ensure that the entire portfolio system is kept up to date. Unfortunately, this is not the case as there is a serious "line drop" problem between the branches and head offices that cuts off data transmission before it can be completed. Furthermore, one branch (Berbice) has only one phone line, which further aggravates communications. As a result of these difficulties, head office enters all disbursements into LMCS as opposed to the branches themselves, which puts an additional strain on head office's already heavy data entry burden. It can also make it difficult – but not impossible – to monitor client accounts. For example, if a client from a branch pays at head office, the branch will not necessarily know about it until it can update its information via modem.

Recommendations:

Short-term

- IPED needs to establish a formal support contract with a local IT expert that clearly defines what services his company will provide, when they will provide them, and at what cost.

- LMCS needs to be modified so that:

  - Loan applications can be properly printed.
  - Loan payments can be automatically calculated.
  - Loan application and cancellation fee receipts can be printed.
  - Savings account information can be tracked by client.
  - Aging report printing can be expedited, if possible.

- If IPED cannot resolve the line drop issue, it should institute a system where it backs up the LMCS on a regularly scheduled basis. Perhaps this means communicating via modem early in the morning or late at night when data transmission may not be so difficult, or instituting a back up system using diskettes and couriers.

- Refine IPED's current MIS system following the guidelines set forth in CGAP's *Handbook for Management Information Systems*, which provides a basic guidebook for the design, development and refinement of management information systems. The *Handbook* promotes commonly accepted definitions, recommends key ratios to monitor, and provides report formats for monitoring institutional performance.

Long-term

- IPED needs to seriously consider whether or not ACCPAC and LMCS will be able to meet its long-term MIS needs. In order to decide this, IPED needs to estimate through the business planning process how many clients it plans to acquire over the next five years. Then it must decide through consultations with an IT and a microfinance MIS specialist whether or not ACCPAC and LMCS will be able to meet its long-term MIS needs. For instance, it may be that LMCS may only be able to support 7,500 clients and that IPED plans to reach that number of clients in three years. If that is the case, IPED needs to start planning for designing or acquiring a new MIS system well in advance. Whatever the case turns out to be, implementing the above mentioned short-term recommendations will go a long way toward optimizing IPED's current MIS as well as help to educate it with regard to what comprises a good MIS.

C. Financial Management

Financial Statements

- IPED produces financial statements each year that are audited by Deloitte and Touche.

Budgeting Process

- IPED's budget planning is done on an annual basis. IPED's Accountant monitors IPED's actual performance against its budgeted revenue and expense figures on an ongoing basis – at least once per month. Currently, administrative and financial costs for IPED's Micro and Main Windows are not separated out. However, IPED intends to assign separate costs to each window in the future. Also, while revenues are projected for each branch, branches are not set up as individual cost centers which makes it difficult to determine the relative profitability of each branch. Branches submit all revenue and expense information on an ongoing basis; loan collection reports are faxed to head office each morning.

Cash Flow Management

- *Liquidity monitoring:* The IPED Accountant is responsible for ensuring that there is an adequate level of cash in IPED's checking account to cover loan disbursements and other expenses. Each morning, he contacts the bank to get IPED's current account balance. From this he deducts loan disbursements from the previous day as well as any other expenses to get the proper level of cash needed for that day. If necessary, the Accountant then shifts cash from IPED's interest bearing cash accounts into the checking account to make up for any potential shortfall. As an added safeguard, IPED has notified the banks that if IPED's account balance ever falls below a certain level, that they must contact the Accountant immediately.

- *Cash flow forecasting:* Currently, the Accountant forecasts IPED's future cash flow needs (weekly, monthly, quarterly, etc.) based on experience and close communication with IPED's Credit Manager as well as IPED's branch managers. So far this system has served IPED well. However, as IPED gears up for growth, it will need to develop more sophisticated cash forecasting systems. As was mentioned previously in the section on MIS, loans are entered into the LMCS only after they are ready for disbursement, which does not give IPED much time to react to surges in demand. Ideally, the portfolio system should be used as a forecasting tool, furnishing reports that indicate the volume of upcoming loans to be issued. Furthermore, the LMCS does not project portfolio revenues – the other half of the cash flow forecasting coin – so IPED cannot anticipate how much cash it should be collecting and match it against upcoming disbursements to determine whether or not it might get caught in a liquidity crunch.

- *Cash available for savings:* IPED does not have set policies to ensure that there is enough cash set aside in reserve to meet savings withdrawals by its clients. While IPED has not encountered any problems meeting demands from clients wishing to access their savings, policies and safeguards need to be established to ensure that client savings are properly safeguarded. This is especially true given the fact that IPED is not a regulated financial institution and therefore is not authorized to collect savings from the public.

- *Bank account management:* The IPED accountant actively monitors deposit interest rates in order to ensure that IPED is earning the maximum interest possible on its time deposit accounts.

Delinquency Management

- *Repayment rates:* As was mentioned above, IPED's General Manager reviews each credit officer's portfolio on a weekly basis as a means of monitoring delinquency. She also examines the portfolio aging report on a monthly basis.

- *Provision and write-off policies:* IPED does not have formal provision and write-off policies per se. It is currently considering setting a general reserve requirement of 10% against loan losses. However, this figure is not based on a set of provision standards, such as those set by CGAP, nor is it linked to an analysis of IPED's aging report. This could result in IPED under-provisioning – which has been the case for the past three years – or over-provisioning, depending on the quality of its loan portfolio. IPED examines its entire portfolio once per year in order to determine which loans it considers uncollectable and then provisions accordingly.

  Regarding its write-off policies, IPED has not written off any loans in the past three years. However, it plans to do so this year. It is considering establishing a policy where any Micro Window loan of 180 days overdue will be written off. (The cutoff point under consideration for Main Window loans is 365 days overdue).

Inflation Rate Risk

- Presently, loan prices are not adjusted to compensate for inflation. This is significant given the fact that inflation for 1999 was 8.6%.

Exchange Rate Risk

- IPED has very minimal exposure to exchange rate risk given the fact that most of its debts (PL 480 and IDB) are payable in local currency. The exception is its EIB loan whose interest is payable in Swiss Francs. However, this is such a small figure so as not to be material.

Capital Sources

- IPED's lending capital is fairly evenly split between debt and equity (see *Performance Indicators* in the financial analysis for more information). As far as debt is concerned, all of IPED's loans are subsidized. IPED says that it can access private sector funding from local banks at the interbank rate at any time, however chooses not to do so because its funding requirements are more than being met through its concessional loans and also because commercial funding is several times as expensive.

Internal Controls

- IPED has an internal auditor at head office who reports directly to the Board.

- Internal controls, such as audit trails, are in place to ensure against fraud. For instance, every morning head office receives a collection report from each of its branches. The report details how much was collected by the Micro and Main Windows individually as well as how much was collected in total. The report lists each loan payment by receipt number, which in turn is linked to the credit officer who made the loan. All receipts (which are forwarded to head office) are matched to the report by the account clerks and verified by the internal auditor. All collections are deposited in the bank on a daily basis net of expenses (which are listed on the report and backed up with receipts) and head office verifies that deposits match the figure listed in the report.

Self-sufficiency Management

- Presently, IPED does not track or monitor its operational and financial self-sufficiency.

Recommendations:

- Set branches up as cost centers so that their relative profitability can be measured and their financial performance more actively monitored and managed. Also, determine separate operating costs for Micro and Main Windows to more accurately determine what their respective interest rates should be. (As things stand now, the Micro Window interest rate could be too high and the Main Window rate is certainly too low to attain financial self-sufficiency.)

- Establish a loan pricing policy, based on the one outlined above (see methodology), that establishes interest rates based upon operating costs, loan losses, financial costs, and a profit target sufficient to maintain projected growth.

- With regard to delinquency management, delinquency and default need to be monitored more closely by finance – on a weekly basis. IPED should adopt CGAP's provisioning standards (see financial analysis) and ensure that provisions are being made in accordance with them throughout the year on a regular and frequent basis. It should also formalize the write-off policy that it is considering and make sure that it is implemented in tandem with its provisioning policy.

- With regard to achieving operational and financial self-sufficiency, IPED should start tracking key ratios (such as those listed in the *Performance Indicator* section of the *Financial Analysis*) of operational efficiency, productivity, and self-sufficiency on a regularly (weekly/monthly) basis. These ratios should guide the decision-making of the board and senior management. Targets for achieving full self-sufficiency should be established and progress against them measured.

- Directly related to the above, IPED should start moving away from its dependence on concessional funding of its loan portfolio. While it may not seem logical for IPED to access market rate funding when it can meet its portfolio needs with subsidized funding (PL 480, IDB, EIB loans, etc.), IPED needs to start planning for the day when these funds will no longer be available. It needs to develop a plan to achieve true financial self-sufficiency that sets clear targets for when IPED will be able to replace a significant portion of its subsidized loans (ultimately it should be able to replace them all) with market funding. Developing and sticking to such a plan will help IPED to develop the financial discipline necessary to ensure its long-term institutional viability as well as help prepare it to make the transition from an NGO to a financially regulated institution should it choose to do so.

- As was discussed in the above section on MIS, IPED Board, senior management team, and operations staff need to develop a comprehensive set of reports in order to guide them in their day to day operations and longer-term decision-making process. These key reports include:

    - Actual payments against expected payments – for field staff.
    - Client status report – for field staff and head office.
    - Bad debts report – for field staff and head office.
    - Aging of arrears – for field staff and head office.
    - Aging of portfolio – for head office.
    - Performance indicators report – for head office and board of directors.

D. Administration

Decision Making Structure

IPED has a highly centralized decision making structure. For example, not only is the Board in charge of setting strategy, but at least two of its members must sign off on all loans over $120,000. While this rarely affects the Micro Window loan approval process, it impacts nearly every Main Window loan. More importantly, however, it reflects the high degree of centralization within IPED, which flows from the Board down the line to management and field operations staff. This is highly evident in IPED's Micro Window loan approval process. Micro Window credit officers have all of their loans reviewed by the Micro Window supervisor, who – in theory – has to have them reviewed by the Credit Manager who then passes them on to the General Manager for final approval. (In reality, Micro Window loans go from the Micro Window supervisor directly to the General Manager. However, the Credit Manager is in charge of the Main Window and has official responsibility for its loans.) While this process may have worked when the Micro

Window was processing only 264 loans per year, as it was in 1997, it is inappropriate for IPED's current volume of Micro loans which last year totaled 2,180. As volume continues to grow, loans will begin to get bottlenecked – if they are not already – at the General Manager level. The end result will be that productivity or portfolio quality will begin to suffer.

This centralized decision making structure is replicated between head office and IPED's four branches and seven sub-offices. All branch and sub-office loans (which account for approximately 25% - 30% of IPED's total loan volume) must be reviewed and approved by head office. This entails branch and sub-office credit officers traveling to head office one day per week to have their loans approved. This results in approximately one week's worth of lost productivity per month as credit officers sacrifice time that could be spent in the field traveling to head office. All branch loan disbursements are also processed by head office.

Given IPED's relatively recent delinquency problems, it is understandable that the Board and General Manager are concerned with ensuring credit portfolio quality and keeping a tight reign on operations. Also, it has been said that the quality of personnel in the branches is not high enough to handle increased autonomy and decision making authority. Certainly a decentralized decision making structure will only be successful if employees are capable, well trained and have their responsibilities clearly defined. However, as IPED looks to the future it will need to take steps to streamline operations and push a good deal of decision making authority down the line to field operations staff as well as devolve responsibility to the branches. Proper reporting (as discussed above) will enable top management to continue to keep close tabs on operations and be able to correct problems quickly as they arise.

Recommendations:

- IPED needs to move toward a decentralized decision-making structure. This must begin at the top, with the Board letting go of its responsibility of reviewing all loans over $120,000. It should only review the truly large loans in IPED's portfolio – perhaps all loans over $2,500,000 – and let the vast majority of its loans be handled by IPED management and operations staff.

- As was discussed under the credit methodology section, IPED needs to allow the vast majority of its credit decisions to take place within the credit department in order to maximize operational efficiency. Loan approval guidelines need to be established that clearly define who (loan officer, sr. loan officer, Micro Window Credit Supervisor, Credit Manager, General Manager, Board) has responsibility for approving which size loans. For instance, a credit committee consisting of the responsible loan officer and a senior loan officer could approve all loans under $50,000. A credit committee consisting of the responsible loan officer and Micro Window credit supervisor could approve all loans under $100,000, and so on. Efficiency of operations must be balanced with risk when developing these guidelines, but the principle behind it is to streamline operations in such a manner that will allow IPED to significantly scale-up its lending operations so as to attain true financial self-sufficiency. It should be noted that these guidelines must be adopted by the branches as well.

- For the above to work, IPED will need to invest significantly in training its staff and developing standardized procedures manuals to ensure that everyone is operating under the same assumptions. (These issues are examined below.) Over time, head office has to shift its role away from operations and move toward more of a goal-setting and performance monitoring function.

Human Resource Management

- *Job descriptions:* These have not been updated in at least eight years to reflect changed tasks and responsibilities.

- *Compensation policies:* In general, IPED employee compensation appears to be competitive with comparable financial service institutions. When the present General Manger took over two years ago, staff salaries were raised to bring them in line with other institutions.

- *Staff satisfaction:* Staff satisfaction appears to be good and is implied in IPED's low level of staff turnover which would seem to indicate that salaries are competitive and that staff is satisfied with their work.

- *Employee evaluations:* Staff evaluations are conducted on an annual basis by IPED head office and branch management. Evaluation criteria is neither standardized nor written down; staff performance is measured against verbally articulated goals. This evaluation forms the basis for any salary increases.

- *Promotion policies:* As IPED is a small institution, there are limited opportunities for advancement.

- *Incentive schemes:* Last year, IPED instituted a performance-based incentive system for its credit officers modeled after the one used by the Dominican MFI ADEMI (Association for the Development of Microenterprises). The ADEMI system calculates monthly credit officer bonuses based on a formula related to the arrears rate, the number of active microenterprises, the size of their portfolio, and the total amount disbursed in the month. While adopting an incentive scheme was a step in the right direction, its effectiveness has been highly limited due to the fact that it is very difficult for credit officers and management to calculate their bonuses. As a result, IPED only pays out bonuses biannually and credit officers do not understand why they received the bonus that they did. As a result, the incentive schemes usefulness as a performance management tool is much less effective.

- *Procedures manuals:* IPED is in the process of developing manuals that clearly define the policies and procedures for each of its areas (credit, personnel, training, accounting, etc.) and branches, however, this effort still has a ways to go. While current operations are apparently carried out in a uniform manner, as IPED grows it will be imperative to finalize and disseminate these manuals to ensure that staff is implementing policies in a standardized way and also to enable it to move toward a decentralized decision-making structure discussed above.

Recommendations:

- Update all job descriptions for key staff including credit officers, administrative positions, and management. This process will prove a valuable exercise in understanding who is currently performing which functions and will also provide insight with regard to how IPED may wish to reassign functions. Job descriptions should be clearly written and emphasize expected outputs rather than activities.

- Not only are up to date job descriptions critical to ensuring standardization of operations, they are also a vital tool in conducting employee evaluations. IPED should formalize its employee evaluation process, which should be based upon measurable, written goals that are agreed upon in advance by employee and supervisor.

- IPED should research whether its compensation policies are in line with other local area financial institutions to ensure that their salaries remain competitive.

- IPED needs to modify its current incentive scheme so that the way bonuses are calculated are as transparent and easy to understand as possible. Bonuses should also be issued on a monthly basis. Every credit officer should be able to calculate what their monthly bonus will be based upon an easy to apply formula that takes into consideration portfolio quality as well as volume. Taking these steps will ensure that a good idea is transformed it into an effective performance management tool.

- Procedures manuals need to be developed and regularly maintained for each area (credit, accounting, administration, personnel, etc.) as well as a standard procedure manual for IPED's branches. Once developed, workshops should be held introducing relevant staff to their existence and purpose. Standardization of policies and procedures will be essential if IPED hopes to move to a decentralized decision-making structure which will enable it to scale-up operations significantly.

Training

All credit officers receive a two-week, in-house training program delivered by senior staff that covers things such as financial analysis, interviewing, client appraisals, etc. as well as provides an overview of how IPED works. However, as very few new credit officers have been hired within the past two to three years, this training has not been delivered recently. For two new credit officers that it hired recently for its Micro Window, IPED opted for on-the-job training, which apparently was not very structured.

Ongoing training is done on an ad hoc basis. For instance, last year one IPED Board Member held an afternoon workshop for credit officers on cash flow analysis. Also, each Friday, the General Manager meets with credit officers to bring them up to date about new developments. Credit officers raise any problems that they may be experiencing in the field and share them with the group so as to draw upon its collective experience. While informal information sharing sessions like this are valuable, they do not really constitute training.

IPED also periodically sends staff overseas for training. For instance, last year two credit officers went to India for two months to attend a training course in micro and small credit. Also, IPED's Credit Manager went to South Korea for a month to attend a course on small business development. Staff members who attend these courses share their experiences with staff when they return through a presentation. However, there does not appear to be a mechanism in place to disseminate these findings in a systematic manner nor a means of systematically evaluating and incorporating new insights gleaned during these visits into IPED's methodology.

Recommendations:

- While all of the above mentioned efforts are certainly good, they do not represent a systematic and standardized approach to staff development and training. As such, IPED should create a training manager position responsible for staff training and development. The manager would be responsible for developing a standardized training program (including materials and manuals) for credit officers that would include the training of new hires as well as on-going training in order to ensure that credit skills are kept sharp and that methodology is applied in a consistent manner. The training manager would also coordinate outside training opportunities – such as the ones IPED has already been taking advantage of – and set up a system that ensures that everyone has an equal opportunity to attend these sessions. The training manager would also work to ensure that information from these outside sessions is systematically transferred to IPED staff and, where appropriate, incorporated into IPED methodology.

Technical Assistance and Training Plan

Technical Assistance and Training Plan

Four training and technical assistance modules are recommended in the following pages to further strengthen IPED and enhance its ability to provide effective, sustainable financial services. The modules cover: credit methodology, financial management, the management information system, and administration. The modules are indicated in order of priority and in the recommended order of implementation, that is Module 1 (Credit Methodology) followed by Module 2, etc. Although it is not possible *a priori* to estimate the exact amount of time required to implement each module, estimates for the time necessary are indicated below.

Module 1 – Credit Methodology	8 weeks
Module 2 – Financial Management	4 weeks
Module 3 – MIS (short term)	1 week
(Note: this does not include the time of the IT Specialist to implement the recommended changes)	
MIS (long term)	1 week
Module 4 – Administration	4 weeks

The main focus is on technical assistance to assist IPED to estimate costs/prices, etc. and to develop and refine procedures. IPED Staff who would be involved are indicated for each Module activity. The major training component is in Module 1 to train credit officers in cash flow analysis, setting credit terms, and in implementing new procedures and policies.

Technical Assistance/Training Module 1: Credit Methodology

	Activity	**Staff Involvement**
Terms	Analyze whether or not loans are being properly structured.	Credit manager Micro-credit supervisor
Pricing	Develop standard methodologies for calculating appropriate Micro Window interest rates based on the Micro Window's operational and financial costs (adjusted for loan loss reserves, subsidies, inflation, necessary profit, & insurance costs).	Accountant General Manager
Loan approval process	Redesign IPED's loan approval process to make it more efficient and thorough with regard to inquiry process, application forms, loan classification system, decision making/ loan approval structure (head office and branches), and disbursements.	General Manager Credit Manager Micro-credit Supervisor
Delinquency management	Fine tune delinquency management process in order to maximize its effectiveness and to bring its portfolio at risk under 10%. Specifically: • Clearly define/articulate repayment incentives (e.g. loan classification system, automatic loan product). • Establish maximum late fee penalty. • Establish system to separately classify rescheduled loans and track as a percentage of the overall loan portfolio. • Establish delinquency targets.	Credit manager Micro-credit supervisor
Savings	Develop legal savings mobilization schemes that focus on creating positive incentives for borrowers to save.	General Manager Credit Manager
Training	• Train credit officers in cash flow analysis and setting appropriate credit terms for borrowers. (Two to three workshops, three days each; ten days to prepare workshop). • Train credit officers in new policies and procedures developed above.	Training officers Credit Manager Micro-credit Supervisor

Technical Assistance/Training Module 2: Financial Management

	Activity	**Staff Involvement**
Financial Management:	• Set branches up as cost centers. • Determine costs and revenues for each branch. • Determine separate operational costs for Main and Micro Windows and adjust interest rates if necessary in order to achieve self-sufficiency targets. • Establish delinquency management guidelines including: - Implementing CGAP provisioning guidelines. - Formalizing write-off policy in conjunction with provisioning policy.	General Manager Accountant
	• Establish performance management guidelines to guide decision making of board and management including the use of performance indicator ratios (e.g. portfolio quality ratios, productivity and efficiency ratios, financial viability rations, profitability ratios.) • Establish self-sufficiency targets including plan for replacing subsidized loans with market funding. • Develop comprehensive set of reports to guide field staff, senior management and board in day to day management and long-term decision making process including: - Actual payments against expected payments – for field staff - Client status report – for field staff and head office. - Bad debts report – for field staff and head office	General Manager Accountant Credit Manager MIS Manager

	- Aging of arrears – for field staff and head office - Aging of portfolio – for head office. - Performance indicators report – for head office and board of directors.	General Manager Accountant Credit Manager MIS Manager

Technical Assistance/Training Module 3: Management Information System

	Activity	**Staff Involvement**
MIS (short term)	• Establish formal support contract with local IT expert that clearly defines what services firm will provide, when it will provide them, and at what cost. • Ensure that LMCS is modified so that: - Loan applications can be properly printed. - Loan payments can be automatically calculated. - Loan application and cancellation fee receipts can be printed. - Savings account information can be tracked by client. - Aging report printing can be expedited, if possible. • Formalize LMCS backup procedures. • Refine current MIS system following the guidelines set forth in CGAP's Handbook for Management Information Systems, which provides a basic guidebook for the design, development and refinement of management information systems.	MIS Manager General Manager MIS Manager MIS Manager MIS Manager
MIS (long term)	• Evaluate long-term capacity of current MIS using microfinance MIS specialist • If necessary, initiate plan to adopt new MIS.	General Manager Credit Manager Accountant Micro Credit Super. MIS Manager

Technical Assistance/Training Module 4: Administration

	Activity	**Staff Involvement**
Human Resource Management	• Update all job descriptions including (credit officers, administrative, & management). • Establish formal employee evaluation guidelines & procedures. • Modify incentive scheme for credit officers. (Make sure that it is integrated into MIS). • Train staff in new procedures. • Develop procedures manual (based on above changes) for credit methodology, financial management, MIS, administration, training.	Administration General Manager Credit Manager Micro Credit Supervisor Accountant